

Mr. Sherwin Welch, Administrator
Heritage Home of Florence, Inc.
515 South Warley Street
Florence, South Carolina 29501

Re: AC# 3-HHF-J6 – Heritage Home of Florence, Inc.

Dear Mr. Welch:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1995 through September 30, 1996. That report was used to set the rate covering the contract periods beginning October 1, 1997.

We are recommending that the Department of Health and Human Services certify an accounts payable for amounts underpaid as a result of the rate changes shown on Exhibit A. You will be notified of settlement terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sj

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

HERITAGE HOME OF FLORENCE, INC.

FLORENCE, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1997
AC# 3-HHF-J6**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 14, 1998

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Heritage Home of Florence, Inc., for the contract periods beginning October 1, 1997 and for the twelve month cost report period ended September 30, 1996, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Heritage Home of Florence, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Heritage Home of Florence, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
October 14, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

HERITAGE HOME OF FLORENCE, INC.

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1997
AC# 3-HHF-J6

	10/01/97- <u>09/30/98</u>
Adjusted reimbursement rate	\$82.30
Interim reimbursement rate (1)	<u>81.97</u>
Increase in reimbursement rate	\$ <u>.33</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated July 17, 1998

HERITAGE HOME OF FLORENCE, INC.

Computation of Adjusted Reimbursement Rate

For the Contract Periods October 1, 1997 Through September 30, 1998
AC# 3-HHF-J6

	<u>Profit And Cost Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	-	\$39.85	\$44.95	\$ -
Dietary	-	9.42	9.74	-
Laundry/Housekeeping/Maint.	-	<u>7.37</u>	<u>7.72</u>	-
	<u>\$4.37</u>	56.64	62.41	56.64
Administration & Med. Rec.	<u>\$1.96</u>	<u>7.49</u>	<u>9.45</u>	<u>7.49</u>
		64.13	<u>\$71.86</u>	64.13
 <u>Costs Not Subject to Standards:</u>				
Utilities		1.94		1.94
Special Services		-		-
Medical Supplies & Oxy.		3.00		3.00
Taxes and Insurance		.95		.95
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$70.02</u>		70.02
Inflation Factor (4.40%)				3.08
Cost of Capital				6.95
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.96
Cost Incentive - For Gen. Serv., Dietary, LHM				4.37
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(4.58)
Minimum Wage Add On				<u>.50</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$82.30</u>

HERITAGE HOME OF FLORENCE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1996
AC# 3-HHF-J6

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,271,258	\$ -	\$ -	\$1,271,258
Dietary	300,392	-	-	300,392
Laundry	43,231	-	-	43,231
Housekeeping	120,319	-	-	120,319
Maintenance	69,578	2,097 (2)	-	71,675
Administration & Medical Records	240,618	-	1,642 (1)	238,976
Utilities	61,862	-	-	61,862
Special Services	-	-	-	-
Medical Supplies & Oxygen	95,779	-	-	95,779
Taxes & Insurance	30,242	-	-	30,242
Legal Fees	-	-	-	-

HERITAGE HOME OF FLORENCE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1996
AC# 3-HHF-J6

<u>EXPENSES</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
Cost of Capital	<u>211,530</u>	<u>10,208</u> (3)	<u>2</u> (2)	<u>221,736</u>
Subtotal	2,444,809	12,305	1,644	2,455,470
Ancillary	12,563	-	-	12,563
Non-Allowable	<u>(19,547)</u>	<u>1,642</u> (1)	<u>10,208</u> (3)	<u>(28,113)</u>
Total Operating Expenses	<u>\$2,437,825</u>	<u>\$13,947</u>	<u>\$11,852</u>	<u>\$2,439,920</u>
TOTAL BEDS <u>88</u>			TOTAL PATIENT DAYS	<u>31,905</u>

HERITAGE HOME OF FLORENCE, INC.
Adjustment Report
Cost Report Period Ended September 30, 1996
AC# 3-HHF-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable Administration	\$ 1,642	\$ 1,642
	To reclassify expense to the proper cost center State Plan, Attachment 4.19D		
2	Other Equity	107,930	
	Maintenance	2,097	
	Accumulated Depreciation		97,690
	Fixed Assets		12,335
	Cost of Capital		2
	To adjust fixed assets and related depreciation State Plan, Attachment 4.19D		
3	Cost of Capital	10,208	
	Nonallowable		10,208
	To adjust capital return to allowable State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$121,877</u>	<u>\$121,877</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

HERITAGE HOME OF FLORENCE, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1996
AC# 3-HHF-J6

	<u>OLD BEDS</u>	<u>NEW BEDS</u>	
Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.1144</u>	<u>2.1144</u>	
Deemed Asset Value (Per Bed)	33,022	33,022	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,452,968	1,452,968	
Improvements Since 1981	162,326	101,561	
Accumulated Depreciation at 9/30/96	<u>(449,163)</u>	<u>(309,151)</u>	
Deemed Depreciated Value	1,166,131	1,245,378	
Market Rate of Return	<u>0.070</u>	<u>0.070</u>	
Total Annual Return	81,629	87,176	
Return Applicable to Non-Reimbursable Cost Centers	(1,360)	(1,474)	
Allocation of Rent and Interest to Non Reimbursable Cost Centers	<u>86</u>	<u>838</u>	
Allowable Annual Return	80,355	86,540	
Depreciation Expense	18,706	43,828	
Amortization Expense	-	-	
Capital Related Income Offsets	(2,116)	(2,316)	
Allocation of Capital Expenses to Non Reimbursable Cost Centers	<u>(940)</u>	<u>(1,028)</u>	<u>TOTAL</u>
Allowable Cost of Capital Expense	96,005	127,024	223,029
Total Patient Days (Minimum 97% Occupancy)	<u>16,470</u>	<u>15,621</u>	<u>32,091</u>
Cost of Capital Per Diem	\$ <u>5.83</u>	\$ <u>8.13</u>	\$ <u>6.95</u>

HERITAGE HOME OF FLORENCE, INC.
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 1996
 AC# 3-HHF-J6

	<u>OLD BEDS</u>	<u>NEW BEDS</u>
6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.12	\$N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>7.11</u>	\$ <u>8.13</u>
Weighted Average Reimbursable Cost of Capital Per Diem	\$6.95	
Weighted Average Cost of Capital Per Diem	<u>6.95</u>	
Cost of Capital Per Diem Limitation	\$ <u>-</u>	